PRESS RELEASE

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Saxo Q4 outlook: China sets the stage

Global growth driver or potential credit bubble?

Saxo Bank, the online multi-asset trading and investment specialist, has today published its quarterly outlook for global markets and key trading ideas Q4 2017.

THE DEATH OF PRETEND-AND-EXTEND, COLLAPSE OF CREDIT IMPULSE

Copenhagen - Geopolitical risk has not played a major role in the world of markets and economics since the Global Financial Crisis primarily because the world's central banks have met the slightest bump in the road with a 'wall of money' available to print.

That modus operandi is now coming to an abrupt end. The Federal Reserve is determined to implement QT, *Quantitative Tightening*, letting its massive balance sheet shrink by allowing outstanding bonds to mature without being renewed. In doing so, it risks making the mistake of increasing steering rates based on the 'hope' that inflation will play according to the academically disproved argument of the Phillips curve.

Commenting on this quarter's outlook, **Steen Jakobsen, Chief Economist and CIO**, **Saxo Bank**, says: "The Fed believes or rather hopes that QT will happen without a major upset to the markets, which is ironic considering that most of world growth since the crisis is predicated on the opposite. We are now being led to believe that taking away the punchbowl is not going to end the party."

Alongside QT, Jakobsen identifies the collapse of the global credit impulse as another significant headwind as we approach the end of the year, adding: "After years of expansions, the credit dynamo has completely reversed. We believe this is a bad omen for Q4-2017 into Q2-2018 where we see a real chance of an economic slowdown which will feel like a recession. A perfect storm of low volatility, low inflation and major policy mistakes by central banks will lead to significant risk to the economic model as we know it."

Christopher Dembik, Head of Macro Analysis, adds: "Since the beginning of the year, the global credit impulse has sent a warning signal to investors around the world. As the world's largest economy based on PPP, China is the main driver of the global credit impulse. A notable downturn in China's flow of credit will impact the evolution of credit in other parts of the world."

FX: THE WORLD IS TURNING ITS BACK ON THE ALMIGHTY DOLLAR

As the world's largest economy and owner of the world's global reserve currency, the US has, for better or worse, lived beyond its means as it exported currency to the rest of the world in the form of treasury debt. Now, a rising China is eyeing the benefits of having its own currency play a larger role and to supplant the USD's role in global trade.

John Hardy, Head of FX Strategy, says: "China is the world's largest oil importer and a successful transition to transacting oil in yuan and maintaining a stable currency would be a first key step towards the long-term deepening of Chinese capital markets and importing the global demand for its currency. Another compelling angle to this is China's need to devalue its way out of the excesses of the credit bubble it has so dramatically inflated."

"More specifically for Q4, the US dollar slide is set to continue, though we may not see a one way slide in Q4 that has characterised much of this year. EUR is poised for further gains as the ECB heads towards a taper and points to the normalisation of policy rates. We expect the UK to turn the corner on Brexit this quarter as we start to get a clearer sense of where the process is headed – GBP/USD especially could revalue higher."

COMMODITIES: GAINS AMID HURRICANES

The commodity sector enters the final straight of 2017 on a much better footing following improved performances during the third quarter. Crude oil recovered as weather related disruptions combined with Opec and non-Opec producers' efforts to curb production finally began having a positive impact on global balances. Precious metals traded higher as an escalation in global tensions increased demand for safe havens and diversification. The positive price action, however, is unlikely to be replicated during the final quarter as the dollar may pause while fundamentals may not yet be strong enough to support a continued rally, especially in growth dependent commodities such as oil and industrial metals.

Ole Hansen, Head of Commodity Strategy, says: "Geopolitical risks remain a threat to the global economy and the potential impact on supply – and not least demand – for key raw materials. We have made no change to our end of year call on gold at $1,325/oz since it was made last December and we see no developments at this stage warranting a revision. End of year we see silver at $17.35/oz."

"The crude oil market look set to finish 2017 on the best footing since oversupply helped trigger the 2014 selloff. The drop in US fuel stocks following Hurricane Harvey disruptions to the Texan Gulf coast will continue to positively impact refinery margins and keep demand for oil elevated at time where a seasonal slowdown normally occur. Given the pull from increased refinery demand we see Brent crude oil ending the year around $55/b while WTI crude oil will struggle to trade much higher than $51/b given its positive impact on supply growth from U.S. producers."

EQUITIES: THE WORLD'S NEXT 1989 MOMENT?

While the world is fixated on a perceived upswing in terrorism and destabilisation on the Korean peninsula, China is moving forward to opening up its economy in a longer-term plan to overtake the US as the world's leading superpower.

Peter Garnry, Head of Quantitative Strategies, says: "As Chinese capital markets are opened, global investors will be able to participate in what will be the most transformational century as China regains its former glory in terms of global wealth share. For investors in the developed world we recommend overweighting the technology sector as it remains the least regulated and overwhelmingly private sector. Buying broad-based indices through exchange-traded funds will still be a good approach for most, but the overweight of state-owned companies will be a drag on performance during the transition to a high-technology and consumer-driven economy."

"Within the consumer staples sector, investors can find tomorrow's consumer winners in China. The largest beverages company Kweichow Moutai has a market value just below $100bn and is growing at 23% annually, which is a pace no beverages company in the developed world will ever come near."

Kay Van Petersen, Global Macro Strategist, adds: "The past year in China has been characterised by stronger than expected economic growth as the overhang of the 2016 credit expansion and a global economic tailwind has seen the old-China model of manufacturing and exports lifted in sync with the ongoing strength in the new-China domestic consumption services-driven economy. At the end, China will emerge as stable and open global economy with deeply entrenched trading ties both in the east and the west."

To access Saxo Bank's full Q4 2017 outlook, with more in-depth pieces from our analysts and strategists, please go to: www.tradingfloor.com/publications/quarterly-outlook

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About Saxo Bank

Saxo Bank Group (Saxo) is a leading multi-asset trading and investment specialist, offering a complete set of investment and trading technologies, tools and strategies.

For almost 25 years, Saxo's mission has been to democratize investment and trading, enabling clients by facilitating their seamless access to global capital markets through technology and expertise.

As a fully licensed and regulated bank, Saxo enables its direct clients to trade multiple asset classes across global financial markets from one single margin account and across multiple devices. Additionally, Saxo provides wholesale institutional clients such as banks and brokers with multi-asset execution, prime brokerage services and trading technology, supporting the full value chain delivering Banking-as-a-service (Baas).

Saxo's award winning trading platforms are available in more than 20 languages and form the technology backbone of more than 100 financial institutions worldwide.

Founded in 1992 and headquartered in Copenhagen, Saxo employs more than 1500 people in financial centres around the world including London, Singapore, Shanghai, Paris, Zurich, Dubai and Tokyo.